

# Statement of Objectives

## Objective

The objective of this document is to review the mutual funds and commingled fund options in the 457 Deferred Compensation Plan and 401(a) Defined Contribution Plan for the State of Montana. The analysis covers the trailing one-, three-, and five-year periods ending December 31, 2004. Fund performance and risk are measured versus the criteria set forth in the Plan's Investment Policy Statement.

## Overview

Section Two contains Arnerich Massena & Associates' summary review of funds in the 457 Deferred Compensation Plan and any resultant recommendations. This section also includes one-, three-, and five-year return and risk scatter plots for all the funds and relevant indices. Section Three contains the attribution pages that provide performance, characteristic and criteria analysis for each of the funds in the 457 Plan. Section Four contains Arnerich Massena & Associates' summary review of funds in the 401(a) Defined Contribution Plan and any resultant recommendations. This section also includes one-, three-, and five-year return and risk scatter plots for all of the funds and relevant indices. Section Five contains the attribution pages that provide performance, characteristic and criteria analysis for each of the funds in the 401(a) Plan. Section Six contains a glossary, descriptions of widely used indices, and notes.

## Attribution Pages

The attribution pages for each fund contain the following information: 1) Sector Weights, 2) Country Weights (on International and Global portfolios), 3) Portfolio Characteristics, 4) Risk Statistics, 5) Russell/Mellon Analytics Return Percentile Rank, 6) Growth of Assets in Style, 7) Net Historical Performance, 8) Rolling Three-Year Performance Chart, 9) Up/Down Market Capture Chart, 10) Style Analysis Chart (on US Equity portfolios), 11) Manager Profile, 12) Fund Strategy, and 13) Arnerich Massena summary narrative and recommendation. Equity portfolio sector weights represent the percentage of the portfolio exposure in eleven different sectors. Fixed income sector weights represent the percentage of the portfolio exposure in six different sectors. International and global country weights represent the exposure to different countries and regions. All of these measures are presented versus a benchmark. Portfolio characteristics describe such items as bond quality and maturity, equity market capitalization ranges and averages, the number of holdings and the top ten holdings as of the end of the period. Portfolio characteristics data is from September 30, 2004. Performance data is as of December 31, 2004.

## Risk Statistics

Russell/Mellon Analytics rankings are based on relative performance within a defined group of similar products, with 1 being the highest relative to peers, and 100 being the lowest. The Morningstar rating is a "star" rating developed by that firm, where fund risk and return are quantified and then ranked versus other funds. The star rating system is based on a bell curve, where a risk-adjusted return that ranks in the top 10% versus the fund's category garners a five star rating. If the fund finishes in the next 22.5% it receives four stars, in the next 35% it receives three stars, in the next 22.5% it receives two stars and in the bottom 10% it receives one star. The Russell/Mellon Analytics Category comparisons are based on a specific group of funds. Russell/Mellon's style groups start with the funds in the Morningstar Categories. The funds must then pass multiple screens required for inclusion in a style group. This results in styles that are "pure" so that their risk/reward profiles and performance

## **Statement of Objectives (continued)**

cycles are distinct, distinguishable, and relevant. The Up/Down Market Capture Ratios are determined by comparison to the respective index, which has an up/down-capture ratio of 100%. When the index is performing positively and a manager captures more than 100% of the rising market (i.e., it has an Up Market Capture Ratio of more than 100%) it is considered offensive. When the index is performing negatively and a manager captures less than 100% of the declining market (i.e., it has a Down Market Capture Ratio of less than 100%) it is considered defensive.

### **Growth in Assets, Manager Profile, Fund Strategy, and Narrative**

Growth in assets quantifies the change in assets over time. Arnerich Massena tracks asset growth because we believe that too many assets under management, especially in smaller capitalization strategies, can detract from performance. Net historical performance is presented against appropriate benchmarks. We report net because this is the performance that an investor actually receives. The manager profile provides tenure and education information for the fund's lead portfolio manager. The fund strategy states the objective and strategy of the fund, in terms of what its goals are and the process used to achieve them. Finally, Arnerich Massena has provided limited narrative and recommendations regarding each of the funds based on the previously defined criteria. These recommendations are summarized in the summary review section.